

## **New Hampshire Department of Revenue Administration Fiscal Note Quick Guide**

16-2251

**HB 1538-FN-A**, *relative to revising the business enterprise tax as a business flat tax, reducing the rate of the interest and dividends tax, repealing certain taxes, and establishing a commission to recommend statutory changes for the implementation of this new tax structure.*

House Way & Means Committee

The proposed bill amends the RSA 77-E Business Enterprise Tax to be a Business Flat Tax and increases the rate from .75% to 2%. “[S]tate departments and political subdivisions of the state,” including DRA and county and local governments, would be subject to the Business Flat Tax.

The proposed bill would reduce the Interest and Dividends Tax (I&D) rate from 5% to 2%.

The proposed bill would repeal the Business Profits Tax (BPT) and the Medicaid Enhancement Tax (MET).

### **Creation of Business Flat Tax & Repeal of Business Profits Tax**

The proposed bill amends RSA 77-E to be a Business Flat Tax and increases the rate from .75% to 2%. “[S]tate departments and political subdivisions of the state,” including DRA and county and local governments, would be subject to the Business Flat Tax. The proposed bill also repeals the BPT.

There would be no fiscal impact in FY 2016 as a result of the creation of a Business Flat Tax and repeal of the BPT, but there could be a large loss of BPT estimated tax and extension payments in FY 2017 if an applicability date is not added to the proposed bill. Additionally, if the proposed legislation is enacted without an applicability date, the DRA would lose the ability to pursue delinquent or incorrect tax returns due for taxable periods prior to the proposed repeal of the tax.

FY 2018 would experience mixed losses and gains in revenue as the tax law changes would be effective January 1, 2018, halfway through FY 2018. However, if an applicability date is added to the proposed bill, the fiscal impact in FY 2018 will be decreased.

For purposes of this fiscal impact response, FY 2019 revenue is based upon FY 2016 budgeted amounts of Business Profits Tax and Business Enterprise Tax of \$340,100,000 and \$226,400,000 respectively. All BPT revenue (\$340,100,000) would be lost for FY 2019 going forward.

However the rate of the BET would go from .75% to 2%. Utilizing the expected \$226,400,000 for FY 2016, and dividing the tax by the current .75% rate results in a taxable base of \$30,186,666,667. This tax base multiplied by the new tax rate of 2% would produce \$603,733,333 for an expected increase of BET of \$377,333,333.

In FY 2019, the increased BET revenues (\$377,333,333) would be offset by the loss of BPT revenues (\$340,100,000) for a net increase of \$37,233,333.

The DRA does not have the information necessary to estimate the fiscal impact of including political subdivisions of the state and non-profit organizations as Business Flat Tax taxpayers. The DRA also does not have the information necessary to estimate the fiscal impact of including county and local governments as Business Flat Tax taxpayers.

### **Repeal of the Medicaid Enhancement Tax**

The repeal of the MET would result in the loss of all MET revenue for FY 2018 going forward. The actual MET received in FY 2015 was \$198,500,000.

### **Reduction of Interest & Dividend Tax Rate**

FY 2016 budget estimates of \$93,100,000 divided by the current tax rate of 5% would result in a taxable base of \$1,862,000,000. This tax base multiplied by the new tax rate of 2% would produce \$37,240,000, for an expected decrease in I&D revenue of \$58,860,000 for FY 2019 going forward.